

**REPORT OF THE AUDIT OF THE
ROCKCASTLE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2011**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ROCKCASTLE COUNTY SHERIFF

**For The Year Ended
December 31, 2011**

The Auditor of Public Accounts has completed the Rockcastle County Sheriff's audit for the year ended December 31, 2011. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$15,146 from the prior year, resulting in excess fees of \$3,746 as of December 31, 2011. Revenues decreased by \$56,156 from the prior year and expenditures decreased by \$41,010.

Report Comment:

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
The Honorable Michael E. Peters, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees -regulatory basis of the Sheriff of Rockcastle County, Kentucky, for the year ended December 31, 2011. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2011, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 31, 2012 on our consideration of the Rockcastle County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



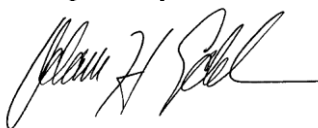
The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
The Honorable Michael E. Peters, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Rockcastle County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

May 31, 2012

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2011

Revenues

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	7,570
State Fees For Services:		
House Bill 452	\$	17,775
Fee Claims	<u>11,874</u>	29,649
Circuit Court Clerk:		
Fines and Fees Collected		3,958
Fiscal Court		96,886
County Clerk - Delinquent Taxes		15,504
Commission On Taxes Collected		132,375
Fees Collected For Services:		
Auto Inspections	3,664	
Accident and Police Reports	635	
Serving Papers	19,440	
10% Add On Fee	27,287	
Carrying Concealed Deadly Weapon Permits	<u>4,745</u>	55,771
Other:		
Prisoner Transports	8,439	
Miscellaneous	<u>2,603</u>	11,042
Interest Earned		52
Borrowed Money:		
State Advancement	85,000	
Bank Note	<u>30,000</u>	<u>115,000</u>
Total Revenues		467,807

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2011
(Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries \$ 191,790

Part-Time Salaries 38,963

Other Salaries 28,117

Contracted Services-

Advertising 600

Materials and Supplies-

Office Materials and Supplies 2,470

Uniforms 809

Auto Expense-

Maintenance and Repairs 953

Other Charges-

Postage 193

Bond 1,403

Carrying Concealed Deadly Weapon Permits 800

Miscellaneous 4,414 \$ 270,512

Debt Service:

State Advancement 85,000

Notes 30,000

Interest 386 115,386

Total Expenditures \$ 385,898

Net Revenues 81,909

Less: Statutory Maximum 77,243

Excess Fees 4,666

Less: Training Incentive Benefit 920

Balance Due Fiscal Court at Completion of Audit \$ 3,746

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2011 services
- Reimbursements for 2011 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2011

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2011
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent for the first six months and 18.96 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Rockcastle County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Rockcastle County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2011
(Continued)

Note 4. State Asset Forfeiture Account

During 2011, the Sheriff's office received proceeds from the confiscation, surrender, or sale of real and personal property involved in state drug-related convictions. These funds are to be used for law enforcement activities and are not available for excess fee purposes. As of January 1, 2011, this account had a beginning balance of \$0. During 2011, funds totaling \$3,918 were received and \$1,026 were expended, leaving a balance of \$2,892 as of December 31, 2011.

Note 5. Federal Asset Forfeiture Account

During 2011, the Sheriff's office received proceeds from the Federal Government for participating in investigations or prosecutions that resulted in forfeited federal drug money. These funds are to be used for law enforcement activities, including training, equipment and operations, facilities and equipment, drug education awareness, etc. These funds are not available for excess fee purposes. As of January 1, 2011, this account had a beginning balance of \$166,736. During 2011, funds totaling \$44,674 were received and \$138,315 was expended, leaving a balance of \$73,095 as of December 31, 2011.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
The Honorable Michael E. Peters, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Rockcastle County Sheriff for the year ended December 31, 2011, and have issued our report thereon dated May 31, 2012. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Rockcastle County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2011-01 to be a material weakness.



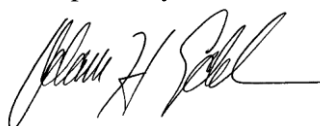
Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Rockcastle County Sheriff's financial statement for the year ended December 31, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Rockcastle County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a long horizontal flourish extending to the right.

Adam H. Edelen
Auditor of Public Accounts

May 31, 2012

COMMENT AND RECOMMENDATION

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2011

INTERNAL CONTROL - MATERIAL WEAKNESS:

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts

A lack of adequate segregation of duties exists over receipts. During our review of internal control, we noted that two individuals are primarily responsible for most receipt functions, including opening incoming mail, receiving and recording cash, preparing bank deposits, preparing the daily checkout sheets, posting to the receipts and disbursements ledgers and preparing the financial reports.

A limited budget places restrictions on the number of employees a Sheriff can hire. When faced with these types of restrictions, strong compensating controls should be in place to offset the lack of adequate segregation of duties. Proper segregation of duties, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting, while also protecting employees in the normal course of performing their responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should implement strong compensating controls including, but not limited to, the following: (1) Recount cash at the end of each day and compare to the deposit ticket. The Sheriff should initial the deposit ticket to document agreement. (2) Reconcile monthly reports to the receipts and disbursements ledgers. The Sheriff should initial the receipts and disbursements ledgers to document agreement.

Sheriff's Response: No response.

